3rd Girish Sant Memorial Annual Lecture, 2015

Topic
Accountable Regulators: A Key Requirement for Good Governance & Consumer Protection

Speaker:

Sucheta Dalal

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Venue:

Devang Mehta Auditorium, Bhageerath

Persistant Systems Ltd.

Senapati Bapat Road

Pune

Girish Sant Memorial Annual Lecture

Girish Sant, a founder of Prayas and the coordinator of Prayas (Energy Group), passed away unexpectedly in February 2012. Throughout his professional career, Girish made immense contributions to the energy sector, primarily to serve the interests of the average Indian including the poor and to improve governance of the sector to prevent gross inefficiencies, earning him respect and friendship from across the spectrum. He also motivated and mentored a large number of young researchers to work in energy policy and governance issues. Several friends and well-wishers of Girish have initiated some activities in his memory to further his work of independent analysis and advocacy to promote public interest issues in the energy sector. This memorial lecture is part of these activities.

About the speaker

Ms. Dalal is an acclaimed financial journalist, who has worked with several of India's leading newspapers, including the Times of India and Indian Express groups at senior levels. She is widely known for her investigative reporting. She served as a member of the primary market advisory committee of SEBI and of the Investor Education and Protection Fund, Government of India. She has been accorded many awards including the Chameli Devi Award for outstanding journalism (1993) and Femina Woman of Substance Award (1993). Based on her outstanding investigative journalism spanning two decades, she was awarded the Padma Shri in 2006. Presently she is Managing Editor at Moneylife - a personal finance magazine that she co-founded in 2006 to serve the interests of consumers and investors. In 2010, she co-founded Moneylife Foundation to spread financial literacy.

Girish Sant Memorial Activities Committee

Prayas Initiatives in Health, Energy, Learning and Parenthood
Phone 020 2542 0720, 020 6520 5726
Website : www.prayaspune.org

Third Girish Sant Memorial Lecture 2015
Pune, February 14, 2015

Accountable Regulators:
A Key Requirement for Good Governance & Consumer Protection

Sucheta Dalal

I am truly honoured to be invited to deliver today's lecture in memory of Girish Sant, who left us so suddenly three years ago.

I discovered Prayas when I was the Financial Editor at the Times of India and had obtained access to confidential papers of the Industrial Development Bank of India on the quiet gold-plating of Enron's Dabhol power project. It was also being given a sovereign guarantee, which could impose crippling costs on the country.

Those were the early days of economic liberalisation and we journalists were desperately looking for authentic analysis on Enron's project, as well as the many Independent Power Projects that were being sanctioned as part of a new electricity policy.

I was often in touch with Girish Sant and Shantanu Dixit until the mid-1990s. In those intense years, we were caught up with trying to expose the disastrous implications of the Dabhol power purchase agreement on our badly run Electricity Boards. Girish and Shantanu, through Prayas, played a crucial role, especially because they were out there with independent analysis and numbers unlike the many anonymous and partisan sources one had in industry and government.

I remember the time when I demanded a copy of the Dabhol power purchase agreement from Rebecca Mark, its extremely high-profile CEO. She waved a big fat document at me that was packed with heat equations and jargon and said, “even if I gave it to you, would you understand it”. I told her, “that is not your concern. If I write something wrong, you will have reason to complain”. I had the confidence to say it because we had organisations like Prayas to depend on.

Enron’s high pressure lobbying systematically targeted almost every newspaper and stopped them from writing about the Dabhol project. In fact, by the time the last litigation was being heard in the Bombay High Court, the business section at Times of India Mumbai, which I headed, was perhaps the only big newspaper that was still able to report the case on a daily basis.

We have the grim satisfaction of knowing that we were right and the disappointment of knowing that we could not muster enough public pressure to change things. Over the next two decades, the scams only got bigger.

Nationalised banks stacked up humungous bad loans on account of these large infrastructure projects, including the power sector. Dabhol Power Company continues to remain a festering sore. Ultimately, we the people of India pay the price for projects like these in the form of frequent re-capitalisation of banks by the exchequer.

Since the turn of the century, collusion between business-politicians and the media has become more brazen and independent voices began to be silenced by exclusion. Paid news no longer shocks people, and the big bucks of advertisers and sponsors decide what is fit to be published or debated at prime time and by whom.

In this environment, it is wonderful that organisations like Prayas have soldiered on, straddling a unique space that is both seriously academic and research-oriented, while also being strongly pro-consumer.

Dr. EAS Sarma, in the first Girish Sant Memorial lecture has correctly said that "Prayas's persistent campaign, for the first time, shifted perceptibly the mind-set of the electricity planners in the country from supply-orientation towards a more consumer- oriented perspective".

Although I stopped following the power and infrastructure sectors closely after the 1990s, we have watched with great dismay that there are no significant benefits for consumers, despite the creation of so many independent regulators, both in finance and infrastructure since the 1990s. In fact, top jobs at the independent regulators have become sinecures for retired IAS officers who have no interest or inclination to change things.

Consequently, we have the same headlines today, describing the same ailments we saw 20 years ago: bad loans, reckless lending, political interference, adverse selection, which all means higher burden on the poor through higher inflation and taxes.

Over the past eight years, my husband Debashis Basu and I set up Moneylife Foundation, which has been doing something similar to Prayas. We try to get regulators to focus on the needs of financial consumers and work towards getting them a fair deal. It is hard work.

I have split today's talk on the need for accountability of regulators in the financial sector into two parts: The first will deal with issues and problems of financial consumers like you and me and the second will deal with the horrible lending practices in public sector banks which lets crony capitalism thrive at the cost of taxpayers while bankers and regulators remain unaccountable.

There are many parallels between financial sector issues and what has been happening in power and telecom as well. The Securities & Exchange Board of India (SEBI) was the first independent regulator to be created, quickly followed by the Central Electricity Regulatory Commission (CERC). Since then, we have had a spate of independent regulators. Bureaucrats who used to resist giving up their powers in a ministry, quickly realised that they were setting the stage for a career extension with better perks and more freedom. We the people helped their cause by demanding a regulator for everything from real estate to advertising, without insisting on better accountability and performance evaluation, ideally through a televised review by the parliamentary standing committee, like Senate hearings in the US.

Let me start by outlining the problems faced by financial consumers.

A. The Problems of Financial Consumers

Looking at it from the outside, the Indian retail financial sector seems very robust. Almost every financial product that a saver ordinarily requires to fulfil her short-term and long-term investment needs, is available today.

There are insurance products to protect from unforeseen events. There are specific products to save tax or create a retirement corpus and regular pension. All these are sold by large, well-funded institutions, closely regulated by four independent regulators, or by departments in the Ministry of Finance and Ministry of Corporate Affairs.

However, our work with financial consumers shows that financial products are often half-baked in their structure or sold with false promises, which lead to losses. Stock manipulation and insider trading are rampant. When the consumer tries to complain about wrongdoing or unfairness, she realises that the grievance redress system is heavily stacked against her.

Regulators are tasked with registering and monitoring financial services companies, approving products that are fit to be launched and resolving consumer grievances. But, the four financial regulators function in vastly different ways, leaving consumers perplexed.

There are no answers to simple questions like:

- Why should two competing products -- Unit-linked Insurance Plans and equity mutual funds -- have completely different sales incentives and different sales processes?
- Why are celebrities allowed to endorse one kind of financial product and not the other?
- Why should the Reserve Bank of India take a hands-off approach to how banks deal with customers, which includes unfair charges and gross mis-selling of third party products?
- Why would insurance companies be allowed to advertise and sell "pension plans" with low returns and high incentives when the government is so keen on people investing in the National Pension System and has created a new independent regulator for it?

The problem is that there is no holistic approach to regulating financial products, from the viewpoint of financial consumers, who are the largest stakeholder. The field is left open for companies to confuse and exploit consumers.

A flawed regulatory approach and poor enforcement inflict regular losses on financial consumers. Chain-money schemes rob the poorest people across all Indian states and usually fly below the radar of regulators. It was with great reluctance that SEBI began to regulate 'collective investment' schemes and some quasi-chit funds. But it still does not cover all the *ponzi* and money circulation schemes that target gullible consumers.

Cooperative banks (some not licensed after 50 years) fail with predictable regularity. They are under the dual regulation of the Reserve Bank of India (RBI) and Registrar of Cooperative Societies and are effectively regulated by neither. This is mainly because of their powerful political connections. Until recently, cooperative banks were allowed to fail without intervention, but the Narendra Modi government has set a new trend by infusing Rs.2,375-crore infusion of funds into 23 district central cooperative banks across the country in November 2014. Most of them probably did not even have licenses.

The Reserve Bank has an elaborate reporting and inspection system for banks, yet public sector banks need to be frequently re-capitalised by the exchequer because of massive bad loans that hobble their operations. And, while the government crows about putting in place effective supervision through multiple regulators, recent events show that they have only blurred responsibilities with disastrous consequences.

As late as 2013, we saw the bizarre spectacle of a whole exchange – the Nation Spot Exchange Limited (NSEL) – come crashing down, leading to nearly Rs.5000 crore of losses to investors. This was a borderline illegal operation because no one was regulating it. It came into existence because of an exemption provided by the Ministry of Consumer Affairs, which has no truck with regulation of financial products, leave alone exchanges. While the NSEL was set up by an upstart MCX group whose promoter Jignesh Shah is now under investigation and being stripped off his assets, what is rarely discussed is that it was not the only commodity spot exchange operating in India.

NSEL created all the bells and whistles of a fully regulated, automated exchanges with trade guarantees, dematerialization of warehousing receipts, tie-ups with depositories etc., creating an illusion of security and oversight. None of this could have happened without SEBI and the commodity regulator knowing about it. Why was SEBI silent when it is in charge of regulating depositories? Nobody is questioning how and why the Ministry of Consumer Affairs granted the exemption? A clear case where regulators are not made accountable for scams.

The irony is that despite the existence of four financial regulators and two ministries – the Ministry of Consumer Affairs and the Ministry of Corporate Affairs – overseeing the actions of companies, action against NSEL is being led by the economic offences wing of the Maharashtra government and the High Court. The NSEL case illustrates all that is wrong with the current system of multiple regulators who operate in narrow silos and are focussed on rule making, rather than regulation. But it is by no means the only example.

The Reserve Bank does much the same, when it allows banks to hard-sell insurance, mutual funds, wealth management schemes and unregulated products. The Banking Ombudsman, which is supposed to provide quick and easy redress, refuses to look into complaints about products under the purview of another regulator. Here again, the financial consumer is left high and dry.

At Moneylife, we have multiple questions for RBI. When is the last time that RBI engaged with consumers or consumer groups? What is its market intelligence mechanism? Does it acknowledge that people must be able to trust their banker implicitly and not worry about being conned by them? We also have issues with the Indian Banks Association operating like a cartel when it comes to imposing costs on consumers, while the RBI watches in silence.

Need for a New Philosophy

The main problem with the Indian financial regulation is that it is stuck in the old regime. Regulators have adopted what is called a "disclosure-based" approach. The idea is, as long as all facts of a product are disclosed, the regulator had done its job. Savers were expected to read, understand the small print and act rationally.

The pitfalls of the disclosure-based regime became evident in India immediately after the SEBI Act came into force in 1992, during the public issue mania of 1993-94 and in the long list of harmful products, that have periodically duped investors. But for decades, we have blamed everything on the 'greedy' consumers. Caveat emptor or buyer-beware is the dictum in financial markets as in case of physical products. This has had a direct impact the state of financial inclusion in every sector. Consider this:

1. Nearly half a century after bank nationalisation and claims of rural penetration, 600 million people do not have a bank account. Prime Minister Narendra Modi's JanDhan Yojana claims huge success, but only because nationalised banks ignored factors like cost of customer acquisition and

it had to be bundled with an insurance policy and the promise of direct transfer of benefits. In the absence of education on financial safety and grievance redress, we need to see what happens if these biometric linked accounts are compromised in any way.

2. Investor surveys commissioned by SEBI show that India's investor population has halved since 1992 to just about 10 million – this includes people investing in mutual funds. The single biggest reason for retail investors vanishing from the capital market is the high cost of entry and poor grievance redress. The Ministry of Corporate Affairs continues to allow companies to raise fixed deposits, although unsecured fixed deposits are not permitted in most countries. But the ministry is unresponsive to complaints when companies do not pay. A big issue here is that regulators do not bother to verify the disclosures and claims made by companies and their auditors – not even in response to media reports, whistle blower information or investor complaints.

3. Despite the entry of over 28 new players in the insurance sector with massive advertising spend on mass media, India remains one of the most under insured countries in the world. Every segment of the industry is affected by multiple issues such as -- padding of claims, corruption and collusion, rampant misspelling and poor fraud poor regulation, supervision and grievance redress. Reliance insurance had a corporate agent deliberately defrauding investors by offering interest free loans equal to 10 times the premium; even after that one agent - AB Capital – was banned, the fraudulent calls continue. Only a few of those who were cheated have got their money back after the

intervention of Moneylife Foundation.

4. On 9th February, Debashis Basu, Moneylife's editor wrote in the Business Standard about how Minister Jayant Sinha had asked the Pension Fund Regulatory and Development Authority (PFRDA) to consider investing our hard earned money in risky venture capital funds to "encourage entrepreneurship". As Debashis pointed out, the retirement products market is already a mess with complete misalignment of incentives, product design, taxation and regulation. He pointed out that retirement products of insurance companies, which give the worst returns, are able to attract more funds because they are able to splurge on incentives to distributors and heart-tugging advertising campaigns. Products offering better returns have zero incentives and hence, do not sell. And yet, the minister's focus is on putting pension money into venture capital!

It took a global financial crisis before new thinking and research came to the forefront in developed countries. The three key differences in thinking today are on the following issues:

i) **Financial literacy**: The global financial crisis has led to a big change in basic regulatory philosophy, based on research into behavioural economics. It shows that the rational economic man does not exist and most people are simply not wired to understand financial products. They tend to translate their experience of buying consumer goods to financial products.

   And, contrary to the popular belief, financial literacy is not the answer. A study published in the journal Management

Science found that almost everybody who has taken a financial literacy class, forgets what they learn in 20 months. So financial literacy efforts have a "negligible" impact on future behaviour. Helaine Olen, author of Pound Foolish calls **financial literacy a "noble distraction from actual consumer protection".**

But our regulators still love 'financial literacy' drives. Worse, they put investors' own, unclaimed deposits and dividends into a pool and spend it on expensive financial literacy camps, almost as a substitute for strict regulatory action against wrongdoing. Spending money on financial literacy advertisements or scam-warnings also allows them to buy media support. The funds available are enormous. Between the RBI, SEBI, Ministry of Corporate Affairs and leading stock exchanges, they have a few thousand crore rupees that are being spent without any compulsion to show results.

Today that phrase financial literacy attracts as much derision as 'corporate governance' did after the major accounting scandals of the late 1990s. True financial literacy must aim to teach people about financial safety and what to watch out for, but those involved in this effort rarely get the funding.

ii) From *caveat empto*r (buyer beware) to *caveat venditor* (seller beware):
Martin Wheatley, CEO or Financial Conduct Authority, told *Financial Times* two years ago that the 2008 financial crisis had fundamentally reshaped regulators' assumptions about the people they protected. "Investors cannot be counted on to make rational choices so regulators need to 'step into their footprints' and limit or ban the sale of potentially harmful

products”. The new thinking is that financial product companies must be made responsible for the products that they put out in the market. The onus of ensuring that the product is suited to the financial profile and needs of the customer must lie with the seller.

In India, the sale of third party products like insurance, ULIPs, mutual funds and wealth management schemes is usually through banks. The RBI has recently issued a consumer charter, which, if strictly enforced will ensure that customers are treated fairly. But instead of framing rules and specific costs and consequences of flouting the charter, the RBI wants banks to self-regulate.

Future of Regulation of Retail Products

This brings us to the next question. What is the way forward from this mess of multiple regulators, with virtually no accountability to the people, who are their largest stakeholder? Well, a change is already underway on the global thinking about regulation and there is increasing awareness of the poor performance of independent regulators.

The United Progressive Alliance government wanted to revamp the regulatory infrastructure and had set up the Financial Sector Legislative Reforms Commission (FSLRC) under Justice BN Srikrishna, a former judge of the Supreme Court. FSLRC suggested the creation of a unified financial sector regulator comprising SEBI, IRDA, FMC and part of RBI and a unified Financial Sector Appellate Tribunal (FSAT) that would hear all appeals against financial sector regulators.

If it happens, this will be good for investors. Justice Srikrishna is on record saying that it was “designed with consumer at the centre". However, we did not see the FSLRC reach out to investors or investor groups to understand their issues. Or to find out why they stay away from capital markets and mutual funds but invest in unsecured fixed deposits and shady ponzi or chain-money schemes and lose large chunks of their savings.

Also, unless there is a simultaneous move to address the accountability of regulators and put in place parameters to evaluate their performance, the unified regulator could end up as one giant bureaucracy, which is even more opaque and unreachable than the existing regulators – RBI, SEBI, IRDA and PFRDA.

Dr K C Chakrabarty, former Deputy Governor of the RBI had correctly said this in a speech at Pune in 2013: "Although the entire financial services business revolves around the consumer, their voice is the feeblest and, very often, not heard. The inability to understand consumer needs is the genesis of all consumer protection issues. Strengthening the consumer voice in the financial regulatory system is not just in the interest of the consumer, but also for sustainability of the financial system". He further said, "openness to consumer needs and aspirations and a quick, just and efficient grievance redressal machinery is the key".

I now turn to the second part of my talk which is about the horrendous bad lending practices of public sector banks which do not seem to invite much regulatory action.

B. The Institutional Issue of Bad Loans

In the first part of my talk I noted how financial services players have been let loose on unsuspecting savers. We expect the ministry of finance and regulators to get the financial services players to behave. But the government needs to clean up its act first, starting with how it appoints regulators or bank chairpersons and enforces accountability of various actors.

All of us recall how Narendra Modi's many passionate election speeches last year were punctuated by a very colourful expression. "Send me to Delhi as your chowkidar and I will protect your wealth". This was accompanied by another colourful expression: "Na khata hoon, na khane deta hoon" (I neither make money, nor do I allow others to make money). We hope that at some stage Mr Modi starts enforcing these two promises where they matter the most: government-owned banks.

Public sector banks (PSBs) dominate India's financial sector. They hold the bulk of people's savings. They are the main source of loans to small businesses and large projects alike. They are the vehicle for his ambitious Jan Dhan Yojana. They are also inefficient, poorly-governed and beset by large scale corruption and lack of accountability at the highest level.

Nationalised banks have been allowed to pile on the bad loans and lend recklessly to infrastructure companies under the UPA government. India claims to have escaped the global financial crises of 2008, but in the exact same period, massive scams in power, telecom, coal, realty, aviation and special economic zones were all being funded by our nationalized banks. The bad loans are now coming in the way of banks' ability to fund new projects.

As a result, the Indian taxpayer is continuing to pay the price for the mammoth loan write-off by banks, which added up to 1.27% of GDP at Rs.1. 61 lakh crore in the past five years. The All India

Bank Employees' Association (AIBEA), assessed that wilful defaults were worth Rs70,300 crore in 400 loan accounts in PSBs. It also estimates that fresh bad loans worth Rs.4.95 lakh crore were created in the past seven years alone. Gross non-performing assets or bad loans in these banks have trebled from Rs.39,000 crore at the end of March 2008 to Rs.1.64 lakh crore at the end of 31 March 2013.

RBI governor, Dr Raghuram Rajan, while delivering the 3rd Dr Verghese Kurien Memorial Lecture recently said, these would have allowed "1.5 million of the poorest children to get a full university degree from the top private universities in the country, all expenses paid."

Dr Rajan also talked about how "the sanctity of the debt contract has been continuously eroded in India' by large borrowers, who 'insist on the divine right to stay in control despite their unwillingness to put in new money".
He said, the promoter "threatens to run the enterprise into the ground unless the government, banks, and regulators make the concessions that are necessary to keep it alive. And if the enterprise regains health, the promoter retains all the upside."

He then went on to talk about how debt recover efforts through new statutes had failed. Dr Rajan spoke about how Debt Recovery Tribunals (DRTs) do not allow speedy recovery of loans, and the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002, had not delivered the expected results.

But why was this not anticipated? Moreover, every banker will admit that the very same statutes work effectively to recover from helpless small borrowers, but not the big, politically powerful ones. In fact, the debt recovery effort is a good example of how new legislation, granting draconian powers to lenders is issued, without addressing what had rendered previous legislation unworkable.

Dr Rajan further said: “I have met numerous parliamentarians who are outraged at the current state of affairs”. This sounds strange to me, because the most outrageous cases of reckless lending, over-generous debt-restructuring and mammoth bad loans have happened precisely because bankers are following instructions from politicians, especially including politicians who had become members of parliament.

Consider three of the headline grabbing bad loans of the past two years. Dr Vijay Mallya, whose Kingfisher Airlines alone owes over Rs.7,000 crore to banks, possibly much more, is the most prominent. He is a Rajya Sabha member with friends across the political spectrum. He has used his very privileged position as MP effectively to build up massive debt. So lenders were reluctant to act even when the planes stopped flying and salaries were not paid for months. The Airline stopped flying in 2012; it has not paid its employees and defaulted on various tax payments as well. But it was only on 1 December 2014 that the Ministry of Corporate Affairs (MCA) finally rejected Mr Mallya’s reappointment as managing director, reportedly under pressure from his bankers.

Then there was the Lanco group of Hyderabad, which rapidly expanded into a power, construction and engineering conglomerate through generous loans by a consortium of banks. Its chairman, Lagdapati Rajagopal, was a Congress MP famous for using pepper spray on fellow parliamentarians, who he repeatedly described as a ‘mob’. He was granted Rs.9,000 crore as part of corporate debt restructuring (CDR) just before the 2014 general elections, even though the group was in a deep financial mess.

Lanco is only one of many notorious Hyderabad-based companies that have received special benevolence from nationalised banks. For instance, T Venkattrami Reddy of Deccan Chronicle is allowed to exercise his ‘divine right to stay in control’, despite serious allegations of fraud and criminal conspiracy to cheat investors. Eleven banks have lent over Rs.4,000 crore to the group. In 2012, when the charges of fraud surfaced, the company put on a brave front; but, by 2014, many of its bankers had classified the loans as non-performing and may have to make big write-offs. Did not Reddy’s opulent lifestyle, clear diversion of funds to a cricket team (Deccan Chargers) and luxury aviation enterprise raise the slightest alarm among bankers? Or was it ignored because the Reddys were politically powerful nephews of high-profile Congress MP T Subbarami Reddy?

Clearly, bankers’ inability to initiate tough recovery measures is due to political pressure and collusion rather than systemic issues. While political will is an important factor that was missing over the past decade, a little help from RBI in nudging the MCA to force a change in management, or to find Satyam-like solutions, could have saved many companies and salvaged their loans.

This brings us to Dr Rajan’s point about the need for better capital structures and how promoters finance projects with slivers of equity borrowed from elsewhere. Huge padding of project costs and brazen diversion of funds through collusion of bankers has been the basis of growth for many first-generation conglomerates operating in steel, power and infrastructure.

In fact, burgeoning bad loans and frequent debt restructuring is due to such collusion, rather than choked up Debt Recovery Tribunals (DRTs). Pertinently, only irrecoverable cases land up at the DRT after frequent window-dressing over the years. Government banks have no incentive to hasten hearings and, as long as they can blame the legal system for delay, they have nothing to fear either.

Often, promoters collude with bankers to strip assets so that there is nothing to recover after the case winds its way through the DRT. As Dr Rajan correctly points out, the only victims of the draconian DRTs and SARFAESI Act are small businesses.

More importantly, current rules do not allow bank chairmen, who are usually appointed through a process of shameless political lobbying, to be held accountable. At best, they are given a letter of censure or allowed to take premature retirement on health grounds. There is no move to change the rules as yet.

Governor Rajan's final point was that a wilful or non-cooperative defaulter must not be lionised as a captain of industry, but justly chastised as a freeloader on the hardworking people of this country. One has to look at Vijay Mallya's timeline on twitter to know that the public does not lionise defaulters at all.

But, yes, our chambers of commerce do. Big borrowers negotiate a place on important committees to improve access to politicians. Here, too, a nudge or a hint by RBI to the bankers will work wonders. In fact, a little more responsibility, speed and proactiveness by RBI in its role as banking regulator will make a big difference. Will it ever happen?

As a result of extensive crony capitalism, recovery through the DRT route was a paltry 13% at Rs.30,590 crore in 2013-14, against the outstanding debt sought to be recovered of Rs. 236,600 crore. Dr Rajan blames this sad state of affairs on the long delays in obtaining judgements and, often, incorrect exercise of jurisdiction by courts. The consequence, he says, is that banks lend at higher rates, charging a 'credit risk premium' to compensate for the risk of default and non-payment. How does Dr Rajan think this situation would change?

His solutions focus on three areas.

First, better capital structures, where lenders insist on promoters bringing in more 'real equity upfront' and not trying to finance mega projects with 'tiny slivers of equity' that is borrowed from elsewhere and taken out as soon as the project gets going. Second, a joint lending forum which should prevent borrowers from playing one lender against another. And third, an improvement in the debt recovery system, including a new bankruptcy law, and provision for structures such as professional turn-around agents.

If this sounds like an astute assessment of the situation, to us, it seems like an attempt to air-brush the real story of bad loans. Dr Rajan sounds like an outsider standing away from the entire mess of bad loans and offering advice, when the buck stops at his door as the banking regulator. The RBI's department of supervision inspects banks and is fully aware of the fraud and falsification of papers leading to massive defaults. But it has done precious little to initiate corrective and punitive action in time. Even in the case of cooperative banks, the RBI sits on market intelligence and conducts leisurely inspections without quick corrective action.

To sum up, financial consumers do not get a fair treatment and the institutional banking system is weakened to the core by corrupt lending practices. We badly need a Swachch Abhiyan for the financial sector, but one that is action oriented and not mere rhetoric.

For the savers, this should consist of making retail products simple and grievance redress effective. As for banks, we need strong accountability for the bankers and the regulator. Otherwise, for the next 20 years we will continue to see exactly what we have seen over the last 20: Corruption, meddling politicians, crony capitalism, regulatory failure and repeated bank 'recapitalisation' with taxpayers' money.

There was a lot of hope among the people when Narendra Modi's government swept to power in 2014. Hopefully, the drubbing in the Delhi Assembly elections will signal that people are no longer willing to mistake articulation and slogans for action and good governance.

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Annual lecture 2015 by Ms. Sucheta Dalal

The talk will focus on issues related to financial sector regulation and how it is not tuned to protect the interests of small investors. It will draw from Ms. Dalal's work with financial consumers, which shows how numerous products are launched without enough information or on false promises, leading to losses, stock manipulation and at times even insider trading. It will also touch upon the changing international discourse on financial regulation following the 2008 financial crisis and the increasing evidence from behavioural economics, which refutes the 'rational consumer' approach towards regulation. Considering such issues ranging from regulatory governance to implementation framework, the talk will also propose alternatives for making the regulators more accountable and protecting the interests of the small investors.

Girish Sant Memorial Committee

For any enquiries, contact 020-25420720, 020-6520-5726
0-9822198478 or pegadmin@prayaspune.org